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Chairman's address 2014 Annual General Meeting

Ladies and gentlemen, my name is Roger Davis and, as Chairman of the Bank of Queensland, I would like to welcome you all to the Bank's 140th Annual General Meeting.

Annual General Meetings provide a Chairman with a unique opportunity to survey the financial landscape, to comment on the results and returns to shareholders, and to report on opportunities addressed and challenges faced while also providing some insights into future performance.

In this regard, I am pleased to advise shareholders that 2014 has been a banner year for BOQ and the state of the Bank is strong by any measure although of course as is always the case, it has not been all plain sailing.

Certainly, we have delivered record financial results and maintained leading capital and provisioning levels while providing healthy shareholder returns in an extremely competitive market where regional banks are being forced to compete with both arms tied behind their backs.

Not surprisingly, I am delighted with our achievements.

Strong performance

Our Acting CEO Jon Sutton will go into more detail about our operational performance but the highlights included a 20% increase in our after tax cash earnings to \$301.2 million and a 40% increase in our after tax statutory net profit to \$260.5 million.

Cash net interest margin increased by 13 basis points to 1.82% while our emphasis on getting our risk fundamentals right substantially reduced credit losses, provisions and impairments.

Leveraging these strong results, and with your support, we were able to diversify the portfolio further and complete a \$440m acquisition of a specialist business that takes us into a new sweet spot.

The Bank's financial performance and our ongoing confidence in its future also allowed us to increase full year dividends to 66 cents per share fully franked, up 14% from 58 cents per share last year. And, at a time when regulators are considering how much capital Australia's major banks should hold compared to their global counterparts, we maintained one of the highest capital ratios in the sector with a Common Equity Tier 1 ratio of 8.63%.

Our outstanding progress as an organisation continued to be noted by ratings agencies, with Fitch Ratings upgrading the Bank's long-term rating to 'A-' just last week. This follows upgrades from Moody's in March this year and Standard & Poor's at the start of the 2014 financial year.

The Standard and Poor's upgrade was the second from that agency in six months which, in itself, is something of a record for the financial sector.

Like any organisation, we also had our challenges over the course of the year.

Our former CEO Stuart Grimshaw left the Bank at the end of the financial year to pursue a career opportunity overseas. I will talk more about Stuart's contribution and the process we are undertaking to replace him at the end of this speech.

Retail asset growth was muted as we chose to focus on margin performance in a market featuring record low interest rates and extremely high levels of competition.

Costs were also higher than we would have liked as we built the infrastructure, both technology and people, to deliver future growth and we continued to bear the burden of increasing regulatory requirements, which disproportionately impact the regional banking sector.

It is fair to say, however, that overall the positives significantly outweighed the negatives and I am therefore pleased to say your Bank and its leadership team believe that the challenges presented by a rapidly changing banking market are well in hand.

Managing for growth

Looking forward our focus has clearly changed. I have previously spoken about the life cycle of banking companies wherein the industry continues to evolve from managing the impacts of the global financial crisis, to managing for performance and, now, to managing for growth.

During the last few years, we have been managing for performance with an enormous focus on strengthening the quality of the Bank's loan book, commencing the digitalisation journey and building a first class management team supported by strong capital and provisioning in a franchise where the customer is firmly in charge.

The results have been impressive and we are now well positioned to focus on the third wave, managing for growth.

In a market where system growth has declined to 5% - 6% per annum, delivering growth is an industry-wide challenge. Cost-out strategies can only take you so far and can frustrate plans to build a robust, customer-focused, national banking franchise.

Our challenge, and that of our peers of course, is to source high return, high growth, low risk business opportunities that drive the top line rather than cost-out growth strategies which are not sustainable.

Our banking strategy, which emphasises that our valued customers are in charge and need to be able to access real-time solutions anywhere, anyhow and anytime; that we wish to grow the right way; that there's always a better way; and that we wish to be loved like no other; facilitates this growth agenda, which is one of profitable growth, not growth at any cost.

The acquisition of the former Investec specialist finance business, now renamed BOQ Specialist, is one such area where your Bank has identified and acquired an exciting new business that promises high returns and manageable risks in the rapidly growing health sector. We also acquired Investec's asset finance business which is now part of BOQ Finance.

Other opportunities that promise to deliver future top line growth include the inroads we have made into the mortgage broker lending market and our renewed focus on small business lending and agribusiness.

With over 200,000 customers and a business which has delivered profitability ahead of our expectations, Virgin Money Australia also represents an important source of future opportunities through access to new customers that were otherwise unattainable through BOQ's traditional banking network.

Indeed, by delivering to the promise embedded in the Virgin brand and creating an operating model that leverages the breadth and diversity of BOQ's own operations without necessarily building a new bank then we believe we can narrow the gap between us and the majors in terms of system growth.

Economic and regulatory outlook

Our ability to continue to generate profitable growth is of course closely correlated and indeed heavily influenced by economic trends as well as the state of the regulatory environment in which we operate.

There is no doubt that the Australian economy is going through a challenging phase – with below-trend growth, weak income growth and other headwinds – as it transitions from a resources led economy to one driven by domestic housing and manufacturing, which is in large part predicated on an East coast recovery.

This transition is ongoing and despite low interest rates, many consumers and businesses are still cautious which is translating to mixed levels of confidence.

There is no better example of this than the housing market which differs vastly across the country.

While there are record property prices in certain suburbs and property types in Sydney and Melbourne, the balance of the nation is not experiencing such boom conditions. Indeed, there are stark divergences across the major cities and regional areas.

Certainly the national average is distorted by low interest rates and particularly strong growth in the Sydney market where there are inherent supply demand imbalances in housing.

Strong investment demand, in Sydney for instance, has seen housing prices (including those of investment properties), increase by about 14% year on year since the start of the current cycle in June 2012 and by 21% since the prior cycle's peak in October 2010.

These are large increases but are confined to one market only. Melbourne housing prices have increased 8% year on year over the same period and are only 6% up from the previous peak while, closer to home, Brisbane housing prices are up around 6% year on year but are still 4% below the previous cyclical peak.

When coupled with low system growth, these trends – despite local abnormalities – suggest there is not a national housing bubble and certainly not in any of the markets where we participate in a major way.

Accordingly, we are comfortable with the Bank's existing housing exposure given our strict credit standards, strong risk policies and our increasingly diversified portfolio which remains underweight in the Sydney and Melbourne markets where growth has been the highest.

We also must caution against any macro prudential changes which are designed to address the Sydney and Melbourne markets but may have unintended consequences in other areas where growth is more subdued such as first home buyers, owner occupiers, and other non-East coast cities where housing markets are a key driver of economic activity.

As indicated above, another critical determinant of our future performance is the regulatory environment in which all banks must operate.

In this regard, it seems increasingly likely given the ongoing Financial System Inquiry process and subsequent public comments from local and global regulators, including the Financial Stability Board, that there will be changes to the regulatory environment to further improve the resilience of the system and to ensure a more level playing field across the market.

Jon will cover this issue in more detail but we believe strongly that action needs to be taken to address the significant regulatory, capital and funding advantages that were gifted to the Big Four banks following the GFC, which they have used to increase their market share and power, particularly in the housing market, as well as profits.

Naturally the Big Four wish to retain these market gains and it is this desire to protect their privileged position that has been driving the rhetoric that we've been seeing from them over the last few weeks.

Despite the uneven playing field that exists in terms of funding, capital and the other regulatory advantages bestowed on the majors, the balance of the banking market still tries hard to compete across all product categories. However, it is certainly not easy.

Accordingly, the regional banks, along with many other stakeholders, believe there would be clear community benefits that wouldn't compromise system integrity if we narrowed the regulatory gap that currently exists between the Big Four and the rest of the market.

People and governance

In summary, the Board, management team and I are very optimistic about the future of our organisation and much of the credit for our position should go to Stuart Grimshaw.

On behalf of the Board, I would like to thank Stuart for all of his hard work over the last three years and what he gave the bank in terms of optionality, strength, vitality and creating a great management team.

One of Stuart's most significant legacies is our ability to manage his departure and move seamlessly into the future and we wish him well in his future endeavours.

I would like to take this opportunity to thank Jon Sutton for his great contribution to the Bank since taking over as acting CEO. Jon is doing an outstanding job in maintaining momentum and delivering on our growth agenda and we congratulate him on his achievements to date.

In terms of identifying a replacement for Stuart, most of you will be aware that we are undertaking a thorough internal and external search to identify the best person to lead your Bank into the future. In this regard, I am pleased to advise we are making good progress in the search, have developed an attractive short list, and will make an announcement about a permanent appointment in due course.

As you will observe from the Notice of Meeting, your Bank has made several new additions to the Board during the course of the year with both Margie Seale and Bruce Carter joining the Bank.

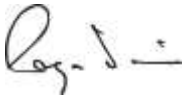
Margie has more than 25 years' experience in senior executive roles in Australia and overseas, and sits on the Board of Telstra while Bruce has worked across a number of industries in both the private and public sectors, served on the Prime Minister's 2012 GST Distribution Review and sits on the Boards of the Australian Submarine Corporation, TIO and Sky City.

Margie and Bruce both further diversify our Board's range of skills and experience so we are in the best position possible to manage the significant responsibilities of an APRA-supervised financial institution. We welcome them to the Bank and thank them both for their contributions to date.

In conclusion, there is no doubt that this year's achievements were made possible through the continued efforts of the Executive team and employees and we thank you for all your wonderful efforts.

I would also like to express my appreciation to shareholders and customers for their ongoing support and trust you all take comfort from the fact that your Bank, despite the external challenges, continues to be well-positioned to move confidently into the future.

How can you not love a Bank like this?

A handwritten signature in black ink, appearing to read "Roger Davis". The signature is cursive and somewhat stylized, with a horizontal line extending to the right.

Roger Davis
Chairman